



## **Federal Trade Commission Protecting America's Consumers**

**For Release:** October 2, 2006

### **Court Halts Illegal Operations of Online Check Processing Firm**

Qchex, an Internet-based check creation and delivery service, has agreed to a temporary restraining order to halt its unfair business practices. In a complaint filed in U.S. District Court, the Federal Trade Commission charged that Qchex creates and sends checks drawn on any bank account identified by a Qchex customer without verifying that the customer has authority to write checks drawn on that account. As a result, con artists have used the Qchex service to draw checks on bank accounts that belong to others. According to the FTC, Qchex's practices have harmed both innocent account holders whose bank accounts have been debited, and individuals and businesses who received fraudulent Qchex checks as payment for goods and services. The agency alleges the practices violate federal law, and has asked the court to order a permanent halt to the illegal operation, and to order the defendants to give up their ill-gotten gains.

According to the FTC's court filings, before September 2005, Qchex offered and sold its online check services without making any effort at all to verify that someone ordering a check on an identified account actually had authorization to write checks to be drawn on that account. Indeed, Qchex would create and deliver checks for a customer even when the customer's name was different from the name on the checking account and different from the name on the credit card account the customer used to pay for the check service. In September 2005, Qchex implemented – and then subsequently abandoned – a series of verification plans that the FTC alleges were haphazard and ineffective.

The FTC charged that Qchex's failure to verify customers' authority to write checks on identified accounts injured account holders by causing funds to be withdrawn from their bank accounts without their knowledge or authorization, and causing them to incur the time, trouble, and costs of closing accounts, opening new accounts, and buying new checks. Some account holders whose accounts were debited without their authorization tried to contact Qchex to tell the company it was processing checks on the wrong account, but they could not locate a working phone number for Qchex. In some cases where account holders did reach Qchex to notify the company that checks were being illegally drawn on their accounts, Qchex ignored them and continued to create and deliver checks on their accounts. The FTC has received hundreds of consumer complaints about the company.

The FTC complaint states that in many cases scammers used a Qchex check to pay individuals or businesses for goods or services. The unwitting individual or business receiving such a check deposited it, and, because the check initially cleared, provided the goods or services to the scammers. But when the unauthorized check ultimately bounced, the amount of the check was debited from the recipient's account.

Scammers also used Qchex checks in overpayment schemes, in which the scammer overpaid an unsuspecting third party for items or services and asked that third party to wire back the difference between the price of the item or service and the amount of the bogus Qchex check. The checks initially cleared, so these recipients of Qchex checks wired the excess funds as requested. But again, when an unauthorized check ultimately bounced, the amount of the previously deposited Qchex check was debited from the victim's account.

The FTC charges that the defendants' conduct constitutes unfair practices that violate the FTC Act. The agency will seek a permanent halt to the business practices and an order requiring that the defendants give up their ill-gotten gains.

Defendants named in this case are Neovi, Inc., doing business as Neovi Data Corporation and Qchex.com; G7 Productivity Systems, Inc., doing business as Qchex.com; and their principals, James M. Danforth and Thomas Villwock. The defendants are based in San Diego, California.

The FTC received invaluable assistance on this matter from the Federal Deposit Insurance Corporation, the Federal Communications Commission, and United States Postal Inspection Service.

The Commission vote to authorize filing the complaint was 5-0. The complaint was filed in U.S. District Court for the Southern District of California.

**NOTE:** The Commission files a complaint when it has “reason to believe” that the law has been or is being violated, and it appears to the Commission that a proceeding is in the public interest. The complaint is not a finding or ruling that the defendant has actually violated the law. The case will be decided by the court.

**Copies** of the complaint and stipulated temporary restraining order are available from the FTC’s Web site at <http://www.ftc.gov> and also from the FTC’s Consumer Response Center, Room 130, 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580. The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint in English or Spanish (bilingual counselors are available to take complaints), or to get free information on any of 150 consumer topics, call toll-free, 1-877-FTC-HELP (1-877-382-4357), or use the complaint form at <http://www.ftc.gov>. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to thousands of civil and criminal law enforcement agencies in the U.S. and abroad.

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**Alternative, fully compliant payment solutions for businesses that accept checks by phone, checks by fax or taking checks online as payment are offered at: <http://checkwriter.net>.**

(FTC File No. [052-3155](#))

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**Related Documents:**

***Federal Trade Commission, Plaintiff, v. Neovi, Inc., d/b/a Neovi Data Corporation and Qchex.com; G7 Productivity Systems, Inc., d/b/a Qchex.com; James M. Danforth, individually, and as an officer of Neovi, Inc. and G7 Productivity Systems, Inc.; and Thomas Villwock, individually, and as an officer of Neovi, Inc.; Defendants.*** (United States District Court Southern District of California), Civil Action No.: 06CV 1952-WQH-JMA; FTC File No.: 052-3155

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